Arboretum Wealth & Trust Management
801 Warrenville Road
Suite 500
Lisle, IL 60532
630-810-4535
arboretum@awtm.com
www.awtm.com

The first weeks of 2020 have proven to be just as tumultuous as our experiences in 2019. It is easy to see that continued political fighting, both global and domestic, will dominate the headlines even more thoroughly than last year.

The good news is the American economy continues its long, slow-growth recovery. Increasing labor force participation, record low unemployment, benign inflation and slowly increasing wage growth all combine into a good and stable, if unexciting, economy.

This economic respite provides a great chance to review investment portfolios and reassess if they still match the goals of our individual situations. As you think about what has changed and how that affects your plans going forward, please think of us as a source of information, education, and guidance. We are always happy to share, and it allows us to do a better job for you.

Wishing you all a Happy and Prosperous New Year,

David M. Richter, CFA

Winter 2020

ARBORETUM
WEALTH & TRUST MANAGEMENT

The Arboretum Almanac

Winter 2019

Socially Responsible Investing: Aligning Your Money with Your Values

Sustainable, responsible, and impact (SRI) investing (also called socially responsible investing) has been around for a long time, but growing interest has moved it into the mainstream. U.S. SRI assets reached $12 trillion in 2018, 38% more than in 2016. SRI investments now account for about one-fourth of all professionally managed U.S. assets.[1]

Surveys suggest that many people want their investment dollars to have a positive impact on society.[2] Of course, personal values are subjective, and investors may have very different beliefs and priorities.

But there is also a wider recognition that some harmful business practices can affect a corporation's bottom line and its longer-term prospects. In some instances, good corporate citizenship may boost a company's public image and help create value, whereas shortsighted actions taken to cut costs could cause more expensive damage in the future.

Data-driven decisions

Services that provide research and ratings for investment analysis may also verify and publish environmental, social, and governance (ESG) data associated with publicly traded companies. Money managers who use SRI strategies often integrate ESG factors with traditional financial analysis. Some examples of ESG issues include environmental practices, employee relations, human rights, product safety and utility, and respect for human rights.

For example, an SRI approach might include companies with positive ESG ratings while screening out companies that raise red flags by creating a high level of carbon emissions, engaging in questionable employment practices, investing in countries with poor human rights records, or profiting from certain products or services (e.g., tobacco, alcohol, gambling, weapons).

Some investors may not want to avoid entire industries. As an alternative, they could use ESG data to compare how businesses in the same industry have adapted to meet social and environmental challenges, and to gain some insight into which companies may be exposed to risks or have a competitive advantage.

Investment vehicles

Many SRI mutual funds and exchange-traded funds (ETFs) are broad based and diversified, some are actively managed, and others track a particular index with its own universe of SRI stocks.

Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors. It's important to keep in mind that different SRI funds may focus on very different ESG criteria, and there is no guarantee that an SRI fund will achieve its objectives.

The number of mutual funds and ETFs incorporating ESG factors has grown rapidly from 323 in 2012 to 705 in 2018.[3] As the universe of SRI investments continues to expand, so does the opportunity to build a portfolio that aligns with your personal values as well as your asset allocation, risk tolerance, and time horizon.

As with all stock investments, the return and principal value of SRI stocks and investment funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

Investment funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

[1-3] US SIF Foundation, 2018

Live within your means

It's easy to want what your friends, colleagues, or neighbors have — and spend money to get those things. That's a mistake. Live within <u>your</u> means, not someone else's.

Hindsight Is 2020: What Will You Do Differently This Year?

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.[1]

The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all* your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

Potential solutions: To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.[2]

Potential solutions: If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand *exactly* how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.[3] As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your* means, not someone else's.

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

[1] Bankrate's Financial Security Index, May 2019

[2] Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

[3] *The Wall Street Journal,* The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019

ARBORETUM
WEALTH & TRUST MANAGEMENT

FIRE: Four Things You Need to Know About This Hot Retirement Movement

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although there is no assurance that working with a financial professional will improve investment results, doing so can help you focus on your overall financial objectives, identify sound strategies, and consider opportunities that could have a substantial effect on your long-term financial situation.

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it?

A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

1. FIRE means implementing an aggressive retirement plan

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- **Calculating estimated retirement expenses.** A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- **Cutting expenses.** This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits, such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.
- **Saving and investing wisely.** FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- **Boosting income.** Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

ARBORETUM
WEALTH & TRUST MANAGEMENT

Arboretum Wealth & Trust Management
801 Warrenville Road
Suite 500
Lisle, IL 60532
630-810-4535
arboretum@awtm.com
www.awtm.com

Could you survive a no-spend month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries? During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Here are some other ways to prepare for a successful challenge.

Time it right. Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment. On the other hand, it could be ideal to begin the new year with a "fiscal fast."

Establish rules. Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

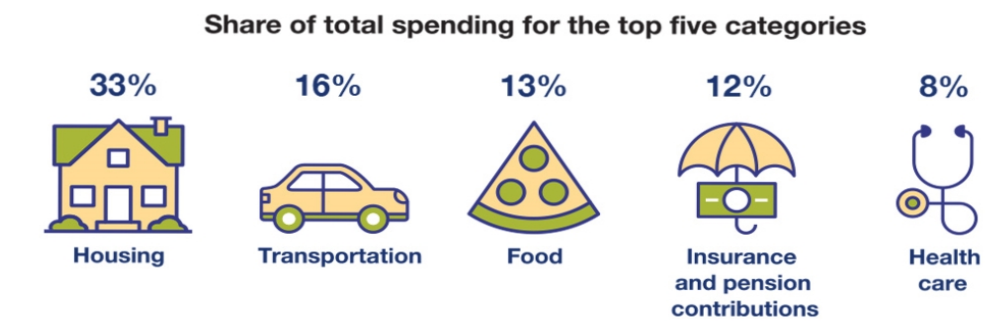
Plan to break patterns. Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

Seek out free and fun entertainment. You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

Stay focused. When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

How Consumers Spend Their Money

Each year, the Bureau of Labor Statistics reports on consumer spending patterns. According to the 2019 report, consumers spent an average of $61,224 in 2018.*



*Average annual expenditures per consumer unit. Consumer units include families, single persons living alone or sharing a household with others but who are financially independent, and two or more persons living together who share major expenses.

U.S. Bureau of Labor Statistics, Consumer Expenditures 2018, released September 2019